BEFORE THE
F EDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C 20554

In the Matter of Implementation of the Local ompetition Provisions in the Telecommu ications Act of 1966	)	CC Docket No. 96-98

Matanuska Telephone Association, Inc

Response to NPRM Released April 19, 1996

Matanuska Telepho e Association (MTA) respectfully submits these comments in CC Docket No. 96-98 to assist the I deral Communications Commission (FCC) in establishing rules for Interconnection mandated by the 1996 Telecommunications Act (Act) MTA is Alaska's third largest Local Exchange Carrier (LE( ) with 39,000 access lines as of Dec. 31, 1995 MTA serves both suburban and rural areas and faces the challenge of providing local exchange service over a large area that has an inhospitable climate, rugged terrain, and high local loop costs

MTA's comments wi l address the following points

- The Ac does not envision a dominant FCC role or require specific FCC regulations
- Only br ad categories of rate elements should be adopted
- Interco nection rules must be developed in concert with universal service and access charges
- Pricing methodology must allow for total cost recovery
- Use of P roxies is not appropriate
- Resale
- Guideli es for bona fide request should be developed

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Act Does Not Envision a Dominant FCC Role

The intent of the 1996 Telecommunications Act (Act) is to deregulate telecommunications services and foster competition. The Act very clearly assigns principal functions of interconnection and unbundling to private parties and the state commissions. MTA believes the FCC should only develop broad flexible guidelines to facilitate interconnection agreements. The Acts sets forth a definite course of action[1]: private parties negotiate interconnection agreements, state commissions review and approve based on just and reasonable criteria and finally if the state fails to act, preemption by the FCC. No set of national pricing principles can adequately address the tremendous regional diversity found in the fifty states. Any pricing principles adopted should be flexible enough to accommodate individual company interconnection circumstances.

Only Broad Categories of Rate Elements Should be Specified

The Act requires that the Commission determine the network elements[2] which should be made available for purposes of unbundled access[3]. The Commission has tentatively concluded that an exhaustive list is not required and proposes that incumbent LECs unbundle a minimum set of network elements for any telecommunications carrier requesting interconnection. MTA concurs with the FCC's tentative conclusion that local loops, local switching capability, local transport and special access, and databases and signaling systems are the appropriate network elements.

Regulations Must be Developed in Concert with Universal Service and Access Charges Reform

The Commission recognizes that universal service, access reform, and interconnection must be considered together. In addition to interconnection issues, rate rebalancing and implicit subsidies must also be addressed. Local exchange companies have historically developed pricing structures from costs

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[1] Section 251 (c) (1) Duty To Negotiate; Section 251 (c) (2) (D) ; Section 252 (a) (1) Voluntary Negotiations; Section 252 (d) (1) Interconnection and Network Element Charges; Section 252 (e) (5) Commission to Act if State Will Not Act

[2] Section 251 (d) (2), Implementation / Access Standards

[3] Section 251 (c) (3), Unbundled Access.

[4] CC 96-98, Notice of Proposed Rulemaking, Paragraph 92-116.

which are, in part, based on the implicit subsidies realized from universal service, and access charge regulations. Without consideration of the effect of these subsidies on future pricing structures, the incumbent LEC will be forced to develop rates without reflecting true costs. The FCC's ultimate goal must be a global set of pricing and costing rules that are consistent with each other and eliminate the danger of arbitrage.

Pricing Methodology Must Allow For Total Cost Recovery

The FCC has requested comments on an appropriate pricing methodology to be used when setting interconnection rates and has proposed the use of a long run incremental cost (LRIC) or a total service long run incremental cost (TSLRIC) methodology. MTA would not support the use of either LRIC or TSLRIC methodologies. MTA believes the recovery of total costs plus a reasonable profit is a necessary condition to keep any telecommunication provider (incumbent or new entrant) financially viable. Cost standards such as LRIC and TSLRIC do not recover total costs or satisfy the standard of profits required to keep any firm financially healthy.

The Act does not establish a standard for cost. Cost as defined in the Act must be viewed in a holistic sense of complete cost recovery. Section 252(d)(1) provides that state determinations of just and reasonable rates for interconnection and providing network elements shall be "based on the cost (determined without reference to rate-of-return or other rate-based proceeding)," "nondiscriminatory," and "may include a reasonable profit." Any pricing scheme which only recovers the incremental cost plus some contribution would not meet the standard set forth in the Act since a firm does not earn a profit until all costs[5] are recovered.

Total revenues must exceed total costs or the firm eventually exits. Setting prices at LRIC or TSLRIC will preclude companies from recovering their fully embedded costs. LECs have made good faith investments with the expectation that these costs would eventually be recovered. While the Act mandates local competition, MTA does not believe that the Act intends a "flash cut" to incremental costing leaving

[5] "All costs" are defined as including joint, common, embedded, and incurred costs.

LECs to deal with unrecoverable investment. Incremental costing is useful for setting a price floor to test for predatory pricing but fails as a mandated pricing methodology

Use of Proxies is Not Appropriate

The Commission again raises the issue of using proxies rather than cost studies for setting rates. Proxy methods may be appropriate for large telephone companies but not for smaller rural carriers. Distortions between the proxy and the cost it is supposed to measure may not be material when spread over companies with billions of dollars in investment or hundreds of thousands of access lines, but are very unrealistic when applied to small rural companies. MTA is opposed to any national benchmarking or proxy models which do not take into consideration the significant cost differences associated with serving a rural high cost area

Resale

Section 252(d)(3) requires that wholesale rates be determined on the basis of retail rates charged to subscribers less avoided costs. However, retail rates may currently be set below true cost due to implicit subsidies such as the Universal Service Fund. Wholesale pricing of services below cost should not be required. The intent of the legislation is clearly to promote facilities based competition.[6] Resale should only be seen a temporary measure until new entrants have time to construct facilities. Allowing a reseller to continually offer service based on a incumbent LEC's facilities does not facilitate the deployment of advanced technologies. Resale provisions should be constructed so that new entrants have an incentive to construct their own facilities. Resellers who do not construct facilities in a reasonable time period should be penalized through higher wholesale rates. In addition to embedded costs, resale rates should also recognize incurred costs. These are costs that incumbent LECs must incur to provide "technically feasible

[6] Telecommunications Act of 1996, Conference Report, "... to provide for a pro-competitive, de-regulatory national policy framework designed to accelerate rapidly private sector deployment of advanced telecommunications and information technologies."

interconnection" or resale elements. Incurred costs should be identified and recoverable through fully distributed cost based nonrecurring charges.

Bona Fide Request

MTA believes this is one area where specific and uniform guidelines from the FCC could provide relief to companies faced with unbundling and interconnection requests. A bona fide request should provide for minimum service periods, specific points of interconnection (both type and quantity), and dates for interconnection. Finally, the local exchange companies must be compensated for any incurred costs associated with an interconnection and unbundling request.

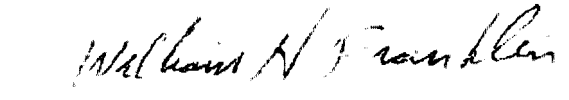
Conclusion

MTA would urge the Commission to not develop specific unbundling and interconnection regulations but rather allow the private parties and state commissions to play the very necessary role intended by the Act.

- The broad categories of state elements established by the NPRM are appropriate and should be adopted.
- The interconnection rules must be developed in concert with the universal service and access charge reform.
- MTA is opposed to any costing models which do not support the recovery of a companies total cost of service and that the use of benchmarking and proxies are not appropriate.
- The resale provisions should include a recovery of embedded and incurred costs as well as provide incentives for carriers to build their own facilities.
- Finally that the FCC should establish criteria for a standard bona fide request.

Respectfully Submitted this 16th Day of May, 1996.

MATANUSKA TELEPHONE ASSOCIATION, INC.



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